PUBLIC MEALTH, WELFARE & SAFETY

Exhibit No.

Date

Bill No.

3 3 3 6

- The Hazards of Smoking

- Numbers

Marketing to Youth

- Secondhand Smoke
- Suppression of information

The Verdict Is In: Findings from United States v. Philip Morris













Law. Health, Justice.

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Introduction

"The debate is over." That's what the Surgeon General said upon releasing the landmark 2006 Surgeon General's Report on the hazards of secondhand smoke. Now another debate is over. The historic legal decision from which this publication is drawn—the Final Opinion in *United States v. Philip Morris*, the government's massive racketeering case against cigarette manufacturers—lays to rest any lingering doubt about who's behind the global tobacco epidemic.

After six years of litigation, nine months of trial, hundreds of depositions and thousands of exhibits, the verdict is in. A highly-respected impartial jurist, the Honorable Gladys Kessler of the United States District Court for the District of Columbia, has studied the evidence and rendered the definitive ruling on the tobacco industry's fifty-year conspiracy to defraud America and the world. Importantly, the ruling strips away the pretense that these companies have reformed their ways. In one area after another, the Court finds, the fraud continues to this day.

Judge Kessler's monumental Opinion is a masterpiece of legal scholarship: clear, thorough and compelling. Its only shortcoming is its length. With so much deceit to chronicle, the Opinion is longer than a Russian novel—more than 1700 pages, in fact. Its heft alone is enough to deter most readers. That's why we've prepared this publication, a distillation of verbatim excerpts from the decision, to equip policymakers, health advocates and the public with the facts about the tobacco companies and their executives: what they knew, when they knew it, and how they continue to mislead the public and manipulate public policy. We hope that, armed with the evidence, we'll all have a better chance at undoing the havoc these companies have created.

D. Douglas Blanke Executive Director

Tobacco Control Legal Consortium

Guidelines for the Reader

The Verdict Is In: Findings from United States v. Philip Morris is a compilation of select quotes from 1,259 pages of Findings in a legal document over 1,700 pages long. Our goal in preparing this compilation has been to extract highlights of the Court's Findings that help tell the story in a direct and easily understandable way. The full text of the Court's 1700-page Final Opinion is available at http://www.tobaccolawcenter.org/doilitigation.html.

We have taken great care in quoting verbatim and in chronological order from the Court's Opinion. Occasionally, we have used brackets to insert additional clarifying information in a quote, such as the full name or title of a company or individual. At times, photo cutlines include minor paraphrasing. Throughout this compilation process, we have used the following editorial conventions in quoting material and citing sources.

Defendants and their Acronyms

The eleven defendants in this case are:

- Philip Morris, Inc., now Philip Morris USA, Inc. ("Philip Morris")
- R. J. Reynolds Tobacco Co., now Reynolds American ("R.J. Reynolds" or "RJR")
- Brown and Williamson Tobacco Co., now part of Reynolds American ("Brown & Williamson" or "B&W")
- Lorillard Tobacco Company ("Lorillard")
- The Liggett Group, Inc. ("Liggett")
- American Tobacco Co., merged with Brown & Williamson, which is now part of Reynolds American ("American Tobacco")
- Philip Morris Cos., now Altria ("Altria")
- B.A.T. Industries p.I.c. ("BAT Ind."), now part of BATCo, British American Tobacco (Investments) Ltd. ("BATCo")
- The Council for Tobacco Research—U.S.A., Inc. ("CTR")
- The Tobacco Institute, Inc. ("TI")

Numbered Paragraphs

The Court's Findings are in the form of numbered paragraphs. We have retained the original paragraph numbers to assist readers who may wish to find an excerpt in its original context in the full Final Opinion.

Ellipses

Whenever we have omitted a word or words within a paragraph, we have used ellipses, following the rules of legal citation found in The Blue Book (18^{th} ed., 2005) (Rule 5.3). Since we are quoting selectively throughout the document, we do not use ellipses at the beginning of paragraphs if the first sentence we're quoting is not the first sentence in the paragraph.

Endnotes and Footnotes

In the interest of readability, we have moved internal legal citations to Endnotes at the back of this publication. These Endnotes have numbers unique to this document. The Court's Findings, in their original form, also contain occasional numbered footnotes. In the few instances where we have quoted an excerpt containing one of the Court's footnotes, we have placed the footnote at the bottom of the page, designating it with an asterisk.

Marketing to Youth

From the 1950s to the Present, Different Defendants, at Different Times and Using Different Methods, Have Intentionally Marketed to Young People Under the Age of Twenty-one in Order to Recruit "Replacement Smokers" to Ensure the Economic Future of the Tobacco Industry

Summary

In this section of the Opinion, Judge Kessler discusses the evidence showing that the Defendants tracked youth behavior and used the information to create highly sophisticated marketing campaigns to get young people to start smoking and continue smoking. Judge Kessler explains that the Defendants sought to remain profitable by bringing new, young smokers into the market to replace those who die or quit.

1. Definition of Youth

2. The Defendants Need Youth as Replacement Smokers

2637. As Bennett LeBow, President of Vector Holdings Group, stated, "if the tobacco companies really stopped marketing to children, the tobacco companies would be out of business in 25 to 30 years because they will not have enough customers to stay in business." ¹

- 3. Defendants' Marketing Is a Substantial Contributing Factor to Youth Smoking Initiation
- 4. Tracking Youth Behavior and Preferences Ensures that Marketing and Promotion Reach Youth
- a. Defendants Track Youth Behavior and Preferences

- **2717**. Defendants spent enormous resources tracking the behaviors and preferences of youth under twenty-one . . . to start young people smoking and to keep them smoking. Defendants' argument that their tracking was not done to determine youth preferences and behaviors so as to market to youth more effectively, is patently not credible.
- **2762.** Philip Morris has conducted extensive consumer research to help inform and shape marketing campaigns that appeal to their youngest potential smokers.
- **2787.** At a March 27, 1978 Lorillard field sales representatives' seminar, several marketing ideas for Newport cigarettes were discussed. Discussion subjects included: sponsoring youth sports teams; . . . scholarships for underprivileged youth; . . . and sponsoring Miss Black Teenager contests.²
- **2789.** An August 30, 1978 Lorillard memorandum from Ted Achey, Lorillard's Director of Sales in the Midwest, to company President Curtis H. Judge regarding "Product Information," demonstrates that Lorillard recognized the significance of the

underage market to the company:

The . . . base of our business is the high school student. NEWPORT . . . is the "In" brand to smoke if you want to be one of the group. Our problem is the younger consumer that does not desire a menthol cigarette. . . . I think the time is right to develop a NEWPORT NATURAL (nonmenthol) cigarette to attract the young adult consumer desiring a non-menthol product.³

2792. An August 2, 1982 Lorillard memorandum from Florian Perini, Senior Research Chemist, to M.A. Sudholt, Manager of Analytical Development, . . . contained a proposal that "Video Game Imagery [be] incorporated in pack design (youth appeal)." It detailed:

the widespread video game craze has certain fundamental features which we could be the first to exploit. Names such as PAC MAN, SPACE INVADERS, TRON and their imagery can imaginatively show up on cigarette packs with repeat motifs . . . and patterns, and their bright imagery can have lasting appeal. Can extend concept to SPACE IMAGERY (Galaxy, Cosmos, Universe).4

2855. In a February 2, 1973 [R.J. Reynolds (RJR)] . . . memorandum, titled "Some Thoughts About New Brands of Cigarettes for the Youth Market," [Dr. Claude Teague, an RJR Research & Development employee stated, "W]e are presently, and I believe unfairly, constrained from directly promoting cigarettes to the youth market ["]⁵

b. Defendants' Marketing Employs Themes Which Resonate with Youth

2892. As the following evidence demonstrates, Defendants have utilized the vast amount of research and tracking data they accumulated on youth smoking initiation, tastes and preferences by employing themes which resonate with youth in their marketing campaigns.⁶ . . . Above all, Defendants have burnished the image of their youth brands to convey rugged independence, rebelliousness, love of life, adventurousness, confidence, self-assurance, and belonging to the "in" crowd.

2918. On August 13, 1970, Philip Gaberman, creative director for Robert Brian Associates, . . . wrote a letter to Professor Charles Seide of Cooper Union, a New York City art college, proposing the use of Seide's students for creating the Kicks package design. The letter stated:

... We have been asked by our client to come up with a package design ... a design that is attractive to kids ... (young adults)... Note: While this cigarette is geared to the youth market, no attempt (obvious) can be made to encourage persons under twenty-one to smoke. The package design should be geared to attract the youthful eye ... not the everwatchful eye of the Federal Government.⁷

2934. A section of [a May 26, 1975 report prepared for Brown & Williamson (B&W)] titled "How Can We Introduce Starters and Switchers to our Brands," stated . . . that an attempt to reach young smokers.



Above all, Defendants have burnished the image of their youth brands to convey rugged independence, rebelliousness, love of life, adventurousness, confidence, self-assurance, and belonging to the "in" crowd.

starters should be based . . . on the following parameters: [p]resent the cigarette as one of a few initiations into the adult world. Present the cigarette as part of the illicit pleasure category of products and activities. . . . [T]ouch on the basic symbols of the growing-up, maturity process. To the best of your ability (considering some legal constraints) relate the cigarette to "pot," wine, beer, sex, etc.8

2955. A June 29, 1983 report . . . listed "beginning ideas" to be implemented at convenience stores to encourage purchase of RJR's cigarette brands, including "activity booklet"

appealing to young people – things to do," "develop a bike rack for kids with bikes – create ad space," "hook-up cigarettes with other youth purchases," "have a video game token given away with purchase," "create a music channel that is closed-circuited into C.S. [convenience store] that is on-target

to youth market," and "some kind of game or contest . . . via proof of purchase – with a weekly winner. Could be video game – high school sports quiz."9

2965. As a February 7, 1984 memorandum from Dana Blackmar to Rick McReynolds stated: "I think the French advertisement for Camel Filters is a smash. It would work equally well, if not better, for Camel Regular. It's about as young as you can get, and aims right at the young adult smoker Camel needs to attract."¹⁰

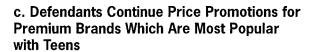
2971. Camel had only 2.4% of the fourteen to seventeen year old market in 1979, according to internal RJR data. . . . By 1993, by virtue of the Joe Camel campaign, Camel had increased its share of the teenage market to an astonishing 13.3% ¹¹

2980. A September 15, 1989 RJR document . . . reported on Camel marketing at . . . a festival that offered "kiddy rides, vendor booths, and live entertainment on both stages." A similar Dallas event included a midway area with carnival rides for the children: "Camel presence, as a major sponsor, was certainly realized by all those at the event. 25 large banners were hung around the perimeter of the park. The Camel 30-ft. inflatable giant pack was situated next to the main stage." A Camel basketball game in a "freestanding booth with banners, flags and giant packs" was located in the midway area with children's carnival rides which achieved "maximum brand impact." The documents indicated that 2,000, 5,000, and

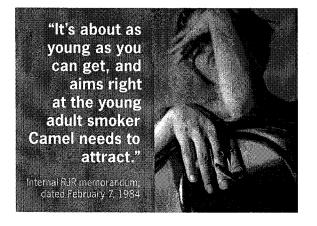
28,000 free samples of cigarettes were distributed at these three events, respectively.¹²

2986. A November 1993 Roper Starch report on an "Advertising Character and Slogan Survey" was conducted with a "national sample of young persons, age 10 to 17 years" to track awareness of the Joe Camel Campaign. The

study found that 86% of the ten to seventeen year olds surveyed recognized Joe Camel. Joe Camel was identified correctly as advertising cigarettes by 95% of the ten to seventeen year olds who claimed awareness of the Joe Camel character. This percentage was higher than the percentage of children who knew that Ronald McDonald advertised McDonald's fast food and within 1% of the number of children who knew that the Keebler elves advertised cookies.¹³



2991. Defendants recognize that youth and young adults are more responsive to increases in cigarette and other tobacco prices, and will not try smoking or continue to smoke if cigarette prices rise.¹⁴



2997. Since signing the [Master Settlement Agreement (MSA)], Defendants have increased the list price of their cigarettes. At the same time, they have enormously increased their promotions, thereby, in effect, decreasing the real price of cigarettes to consumers.¹⁵

3017. Since approximately 2000, B&W has spent more on discounting or reducing the price of Kool cigarettes than any of its other brands, according to Paul Wessel, the Current Divisional Vice President at B&W in charge of value for money premium niche brand and new product development.¹⁶

3018. Wessel claimed that he was unaware of whether youths were price sensitive and whether B&W had ever taken a position on the price sensitivity of youth.¹⁷ That statement is not credible in light of his corporate responsibilities and B&W's oft-claimed sensitivity to avoiding the marketing of its products to youth.

5. Defendants' Marketing Successfully Reaches Youth

a. Defendants' Spending on Marketing and Promotion Has Continually Increased

3026. After signing the MSA, Cigarette Company Defendants reported to the FTC significant increases in spending for newspapers (up 73%), magazines (up 34.2%), and direct mail (up 63.8%). Distribution of free cigarettes rose by 133.5%. ¹⁸

3032. Much of Ms. Beasley's testimony on cross-examination was flatly not believable. Two examples will suffice. First, even though she was President and Chief Operating Officer at RJR, and a long-time employee of the company, she denied knowing that RJR's leading cigarette brand, Camel, is the third most commonly smoked brand among twelve to seventeen year olds. ¹⁹ Second, she stated that in March 2001, RJR removed Rolling Stone and other magazines from its list of magazines approved for youth readership; she was then shown four different 2005 Rolling Stone magazine editions that contained RJR cigarette

brand ads for Camel, in direct contradiction of her testimony.²⁰ Therefore, the Court rejects her testimony that Reynolds's marketing, particularly in magazines, is not directed at youth.

b. Defendants Advertise in Youth-Oriented Publications

3054. Philip Morris's Director of Media [Richard] Camisa claimed that . . . he was not aware of the number of teens who were being reached by Philip Morris's advertisements in publications. That testimony is rejected as not being credible, particularly in light of his acknowledgment that the Media Department created binders of "cheat sheets," similar to "Cliff's Notes," for the Philip Morris Brand Groups that contained synopses of each magazine in which Philip Morris cigarette advertisements could be published. Those synopses included basic readership demographic data, including information on a magazine's age of readers, theme, and target audience.²¹

3083. Andrew Schindler, CEO of RJR, . . . stated – with a straight face – that, when RJR advertised in the 2003 swimsuit issue of Sports Illustrated, it did not occur to him that "the Swimsuit issue, might garner a very high absolute number of adolescent boys looking at it, even if the 25% threshold was not breached" or that "even if actual sales figures for this issues [sic] were not astronomically higher for adolescents, this is the one issue that has a huge potential for one tenth grade boy who did buy it to take it to school and share around with all of his pals."²² This statement is not credible.

c. Defendants Market to Youth Through Direct Mail

3089. Defendants have made extensive use of direct mail marketing to many millions of individuals to send them coupons, t-shirts, sporting goods, mugs, and magazines, all promoting their brand of cigarettes. These mailings were sent to millions of young people for whom Defendants had nothing more than an unverified representation that s/he was over the age of twenty-one.

3101. Lorillard, through its CEO Martin Orlowsky, admitted that "at times" it has sent mailings to individuals for whom it has no government-issued identification, and that it does not have third-party verification for every person to whom it mails.²³



"If we don't do something fast to project that sense of industry responsibility regarding the youth access issue, we are going to be looking at severe marketing restrictions in a very short time."

1995 Philip Merris Document

3102. ln 2000,

Lorillard sent 4,181,593 mailings that included coupons for cigarettes to 2.6 million individuals for whom Lorillard has no third-party age verification and no government-issued identification on file.²⁴

3108. In 2004, B&W also sent cigarettes through the mail to individuals whose age had not been verified through government-issued identification or third-party verification.²⁵

d. Defendants Market to Youth Through an Array of Retail Promotions

e. Defendants' Promotional Items, Events and Sponsorships Attract Youth

3135. David Desandre, a Lorillard marketing employee, and Beth Crehan, an employee of a marketing promotion firm, were able to attend a Lucky Strike "Band to Band" event . . . without being asked for any identification. Inside the Concert Hall were "pole banners with the Lucky Strike Band to Band tag-line" Desandre described how, while he was filling out a form to receive a free CD, a Lucky Strike staff member "threw me a pack of Lucky Strike cigarettes . . . she did not ask me if I was 21 or a smoker. She also did not ask for my id. Beth Crehan was also not asked for id."²⁶

3136. Defendants sponsor televised racing events which have great appeal with youth. As a result, millions of youth watching these events are exposed to Defendants' cigarette marketing imagery.

3141. Defendants falsely deny that the television exposure their cigarette brands garner does not motivate their continued sponsorship of racing events. For example, RJR asserted . . . that "radio and television exposure is not a motivating consideration for Reynolds in deciding whether to sponsor an event or a vehicle participating in an event." However, Susan Ivey, President and CEO of Reynolds American, acknowledged that one of the benefits of brand sponsorship of televised sporting events is exposure of the brand name on television. ²⁸

3154. A 1992 Gallup survey revealed that almost half of adolescent smokers and one quarter of nonsmoking adolescents had received promotional items from tobacco companies.²⁹

6. Defendants' Youth Smoking Prevention Programs Are Not Designed to Effectively Prevent Youth Smoking

3184. Internal documents suggest that Defendants designed their [youth smoking prevention] programs for public relations rather than efficacy in youth smoking prevention.³⁰

3185. A 1995 Philip Morris document . . . stated: [I]f we don't do something fast to project that sense of industry responsibility regarding the youth access issue, we are going to be looking at severe marketing restrictions in a very short time. Those

restrictions will pave the way for equally severe legislation or regulation on where adults are allowed to smoke.³¹

- 7. Despite the Overwhelming Evidence to the Contrary, Defendants' Public Statements and Official Corporate Policies Deny that Their Marketing Targets Youth or Affects Youth Smoking Incidence
- a. Defendants Claim They Restrict Their Marketing to People Twenty-one and Older
- b. Defendants Deny Their Marketing
 Influences Youth Smoking Initiation;
 Defendants' Explanation for Their Marketing
 Practices Is Not Credible
- **3219**. On the nationally televised ABC program 20/20, broadcast on October 20, 1983, Ann Browder, a Tobacco Institute spokesperson, . . . stated that

[c]igarette manufacturers are not interested in obtaining new business from teenagers. . . . We've been in business very well, thank you, for sometime now without attempting to hook kids. We do everything possible to discourage teenage smoking.³²

- **3230.** On May 24, 1990, the Tobacco Institute issued a press release . . . [that] quoted [the Tobacco Institute's Charles O.] Whitley as testifying: "I know of no other industry in America that has taken such direct, voluntary action to steer its products away from young people."³³
- **3233.** On December 12, 1990, [Brennan Dawson, Vice President of Public Relations for the Tobacco Institute,] told news reporters: "If a child never picks up another cigarette it would be fine with the tobacco industry."²⁴
- **3264**. Steven C. Watson, Lorillard Vice President, External Affairs, was responsible for issuing a press release in 2001, stating "Lorillard Tobacco Company has never marketed or sold its products to youth." ³⁵

3286. On September 18, 1990, Joan F. Cockerham of RJR's Public Relations Department, . . . stated:

Our intention with this campaign, as with all of our advertising, is to appeal only to adult smokers. We would not have launched the current Camel campaign if we thought its appeal was to anyone other than this group. . . . [O]ur advertising is directed to adult smokers and not younger people.³⁶

8. Conclusions

- **3296.** The evidence is clear and convincing and beyond any reasonable doubt that Defendants have marketed to young people twenty-one and under while consistently, publicly, and falsely, denying they do so.³⁷
- **3297**. In response to the mountain of evidence to the contrary, Defendants claim that all the billions of dollars they have spent on cigarette marketing serves the primary purpose of retaining loyal customers ("brand loyalty"), and the secondary purpose of encouraging smokers to switch brands.³⁸
- **3298.** Defendants' marketing activities are intended to bring new, young, and hopefully long-lived smokers into the market in order to replace those who die (largely from tobacco-caused illnesses) or quit. . . . Defendants used their knowledge of young people to create highly sophisticated and appealing marketing campaigns targeted to lure them into starting smoking and later becoming nicotine addicts.³⁹
- **3301**. Defendants spent billions of dollars every year on their marketing activities in order to encourage young people to try and then continue purchasing their cigarette products in order to provide the replacement smokers they need to survive. Defendants' expenditures on cigarette advertising and promotion have increased dramatically over the past decades, and in particular since the signing of the MSA.⁴⁰
- **3302**. In the face of this evidence, Defendants have denied, over and over, with great self-righteousness, that they have marketed to youth.

Endnotes

- LeBow WD, 63:16-64:1.
- 85530255-0264 at 0262-0263 (US 31998)
- 03537131-32 (US 22357). 3
- 96509517-9519 at 9519 (US 56890).
- 502987407-502987418 at 7408 (US 20708).
- Krugman, WD, 85:11-92:18.
- 92352889-2890 (US 21725)
- 8 680092632-2668 at 2664-2665 (US 21693); 170043558-3593 at 3581-3582 (US 20293); 679018003-8278 (US 87928).
- 500863242-3272 (US 20654).
- 502303940-3940 (US 22067); Horrigan PD, <u>United States v. Philip Morris</u>, 10/25/01, 25:1-27:8. Eriksen WD, 1/17/05, 49:7-53:5; VXA1900036-0049 (US 63946). 10
- 11
- 12 507525019-5023 at 5020, 5022 (US 20778).
- 517145060-5108 at 5064, 5082, 5085 (US 20877). 13
- 14 Chaloupka WD, 94:23-124:4.
- 15 Chaloupka WD, 124:7-136:20.
- 16 Wessel PD, United States v. Philip Morris, 3/19/03, 28:17-29:1.
- 17 ld. at 36:23-37:12.
- 18 [Dolan WD, 61:15-16.]
- 19 Beasley TT, 3/31/05, 17358:1-17359:16.
- ld. at 17364:11-17369:23. 20
- 21 Camisa PD, <u>United States v. Philip Morris</u>, 6/28/02, 85:20-87:2, 92:2-93:15.
- Schindler WD, 214:13-215:8. Orlowsky TT, 10/13/04, 2277:25-2278:25. 23
- 24 94945731-94945736 at 5734 (US 90002).
- 25 lvey TT, 11/17/04, 6241:1-6243:11; 469100116-0136 (US 89166) (Confidential).
- 26 98600272-0273 (US 22212).
- 27 509321275-1290 (US 21993).
- 28 lvey WD, 48:6- 49:4.
- 29 Krugman WD, 107:18-20.
- TIMN0164421-4424 at 4423 (US 34445*) 30
- 31 2044046017-6022 at 6021-6022 (US 66716).
- 680286673-6686 at 6675-6676 (US 20999); 690149518-9531 at 9520-9521 (US 21046).
- 33 MNAT00600156-0157 (US 22349).
- 34 TIMN0131524-1525 (US 85153).
- Watson PD, United States v. Philip Morris, 4/2/02, 190:5-191:6.
- 507706384-6384 (US 20782). 36
- Dolan WD, 24:3-16; Krugman WD, 17:2-19:1; Chaloupka WD, 30:8-32:20; Biglan WD, 100-379.
- 38 Dolan WD, 61:6-16.
- Dolan WD, 24:3-16; Krugman WD, 84:1-99:23; Chaloupka WD, 30:8-32:20; Biglan WD, 100-379.
- Krugman WD, 23:10-24:4.



About the Tobacco Control Legal Consortium

The Tobacco Control Legal Consortium is a network of legal programs supporting tobacco control policy change throughout the United States. Drawing on the expertise of its collaborating legal centers, the Consortium works to assist communities with urgent legal needs and to increase the legal resources available to the tobacco control movement. The Consortium's coordinating office, located at William Mitchell College of Law in St. Paul, Minnesota, fields requests for legal technical assistance and coordinates the delivery of services by the collaborating legal resource centers. Our legal technical assistance includes help with legislative drafting; legal research, analysis and strategy; training and presentations; preparation of friend-of-the-court legal briefs; and litigation support.